



INTERNAL AUDIT

CONTROLS EVALUATION

MISCELLANEOUS TAXES

June 4, 2001

Roanoke City Council Audit Committee
Roanoke, Virginia

We have audited miscellaneous taxes in accordance with government auditing standards.

BACKGROUND

Miscellaneous taxes, or local taxes, account for 30% (or \$56 million) of the City's annual revenue. Of these local taxes, approximately \$23 million is billed and collected by one person. Budgeted revenues for local taxes are as follows:

Utility Tax	\$11,025,000
Prepared Food & Beverage Tax	\$ 6,640,000
Transient Room Tax	\$ 1,700,000
Telephone Surcharge Tax (E-911)	\$ 1,092,000
Franchise Fees	\$ 953,555
Right-of-Way Use Tax	\$ 520,000
Utility Consumption Tax	\$ 444,000
Mobil Telecommunications Tax	\$ 360,000
Admissions Tax (excluding Civic Center)	\$ 300,000

These taxes are self reported taxes that are not billed unless delinquent. The Senior Tax Compliance Administrator sends each business a coupon book annually to report their taxes due to the City. The individual coupons in the booklet serve as the tax returns for the businesses. These returns are addressed to the City Treasurer's office so that the payment is remitted directly to that office when due.

Key business activities administered by the Office of Billings and Collections include establishing and maintaining individual tax accounts, applying collection procedures for unpaid taxes, informing businesses of tax reporting requirements, and auditing businesses. Cash receipts for these taxes are received and posted to the general ledger in the Treasurer's office on a daily basis. Local business taxes are then recorded into the Business Tax System by the Senior Tax Compliance Administrator in the Office of Billings and Collections. The Senior Tax Compliance Administrator also completes daily and monthly reconciliations between the taxes received by the Treasurer and the taxes reported on the Business Tax System and the general ledger. The Business Tax System tracks the account balances for each business, detailed transactions made to accounts, and delinquencies. It also automatically assesses penalties and interest on delinquent accounts.

The current Business Tax System was fully implemented in December of 2000. The system took approximately three years to design and fully implement. The system was designed to operate in a client/server environment by its third party developer. Various administrative functions of the system were designed to be maintained and changed by the Office of Billings and Collections without additional assistance from the developer.

PURPOSE

The purpose of this audit was to evaluate the design and operation of the internal control system for local business taxes.

METHODOLOGY

We obtained an understanding of the local business taxes by interviewing staff members from the Office of Billings and Collections. We documented our understanding by developing data flows and narratives. Based on these narratives, we identified controls and the risks involved in the area of local business taxes. We evaluated the efficiency and effectiveness of the controls over the risks. As a result of our evaluation, we developed a test program that includes a combination of substantive and control test work.

RESULTS

During our evaluation of controls, we noted that the Office of Billings and Collections has implemented a sound internal controls system over the recording and monitoring of miscellaneous taxes. We did, however, identify the following areas which would improve the overall internal controls system:

Finding 01

One of the most effective methods of insuring compliance with local tax laws and maximizing collections is to conduct audits of businesses. Our test work indicated that the Office of Billings and Collections conducts relatively few audits on local business tax accounts.

Recommendation 01

The Office of Billings and Collections should consider the need to create an additional full-time or part-time staff position to allow more audits of businesses reporting these taxes. The number of audits being conducted are currently limited due to staffing constraints. Due to deregulation of utilities and growth in telecommunications markets, the number of taxes processed by the Office of Billings and Collections has significantly increased over the past several years. The time available to audit businesses is expected to decrease as growth continues in these areas.

Management's Response 01

An annual sales tax audit is usually completed by a summer intern under the supervision of the Senior Tax Compliance Administrator. This process compares gross receipts reported to the State of Virginia to the gross receipts reported to the City of Roanoke for certain tax types. Any discrepancies discovered during the audit must be explained by the business. In addition, the Senior Tax Compliance Administrator makes monthly field visits to various businesses to monitor their business and reporting activities. This most directly impacts admissions taxes and

to a lesser extent, prepared food and beverage taxes. More staff time would allow audits to be conducted on transient taxes and mobile telecommunications.

Finding 02

The Chief of Billings and Collections reviews and signs off on a package of memos reflecting adjustments made to individual account balances. This practice does not adequately control the risk of improper adjustments made to local business tax accounts because the package may not be complete with respect to all adjustments made to businesses' accounts.

Management's Response 02

The Business Tax System generates a report with a complete listing of all adjustments made to account balances over a specified period of time. In addition to the adjustments currently being reviewed, the Chief of Billings and Collections will begin to review and sign this complete report on a monthly basis to more effectively control the risk of improper adjustments made to local business tax accounts.

CONCLUSION

We believe that the design and operation of the internal control system for miscellaneous taxes is adequate to ensure that miscellaneous taxes are properly processed and recorded.

We would like to thank the Office of Billings and Collections' staff members for their cooperation during the audit.

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